Energy Division - California Public Utilities Commission

March 7, 2022 Data Request regarding 2022 SB 695 Report
IOU Recommendations to Limit Cost and Rate Increases

San Diego Gas & Electric Company Response, March 28, 2022

Introduction

San Diego Gas & Electric Company (SDG&E) appreciates the opportunity to respond to the California Public Utilities Commission (CPUC or Commission) Energy Division in compliance with Public Utilities Code Section 913.1, which annually requires that the utilities:

> …study and report to the commission on measures that they recommend be undertaken to limit costs and rate increases."[1]

In Section I below, SDG&E reports to the Commission on measures we recommend should be undertaken to limit costs and rate increases. At the request of Energy Division Staff, Section II of SDG&E's response addresses topics drawn by Staff from the Affordability Rulemaking Phase 3 En Banc held February and March 1, 2022.

I. Recommendations to the CPUC and Legislature

A. Opening Comments

California's Energy Landscape is Changing Rapidly

The rapidly changing energy environment in California is driving the need for a comprehensive and holistic renewed focus on the fundamentals surrounding the ratemaking process. The guiding principles needed to meet the state's climate goals require balancing customer choice and economically efficient decisions at all levels, which are critical to providing affordable rates that benefit the grid and all customers. A combination of equity, transparency, and comprehensive customer education are necessary to help ensure all ratepayers have access to safe, reliable, and affordable choices in a sustainable energy market.

Senate Bill (SB) 100 requires 100% of California retail electricity sales to be generated by renewable, carbon-free sources by 2045. To achieve this aggressive shared goal, it is imperative for the State to take advantage of all available economic resources to increase affordability while maintaining a safe and reliable electric grid for all customers. California cannot finance this multi-sector energy transition solely on the backs of its electric and gas ratepayers; access to non-ratepayer sources of state and federal funding will be imperative, along with rate design changes, to support our collective goals while maintaining bill stability and affordability for energy customers.

[1] Public Utilities Code Section 913.1(b).

The Current Volumetric Rate Structure is a Barrier to Decarbonization and Affordability

The current volumetric residential rate structure prioritizes overall electricity conservation as an emission reduction strategy through a "tiered" residential rate structure. Customers pay the same amount for each marginal kWh they consume up to a threshold and then pay a higher rate for any energy consumption above that threshold. However, in addition to conservation, increased electricity consumption from fuel switching (gas to electric) can also result in decreased emissions. The transportation sector is a primary example of the impact of fuel switching. Transportation produces significant emissions in California, accounting for approximately 40% of statewide GHG emissions.[2] In order for this to change, customers and businesses will need to convert combustion engine vehicles (CEV) to electric vehicles (EV). Rate structures that punish customers for increased electricity usage do not encourage the adoption of EVs.

Maintaining a largely volumetric rate structure will contribute to increasing affordability concerns. Because most of SDG&E's costs are fixed, SDG&E's current volumetric rates do not reflect cost causation principles and do not send customers the right price signals. Higher-usage customers, such as those in non-coastal climate zones with warmer average temperatures, customers with poor or outdated insulation in their homes, or customers that cannot install distributed generation resources pay a higher share of SDG&E's fixed cost. Whereas lower-usage customers, such as coastal customers in more moderate climate zones, and customers who can adopt technology such as distributed generation, pay a smaller share for fixed infrastructure and program costs.

As technology continues to advance, more innovative approaches to rate design (including increased fixed cost recovery) will be needed to balance the interests of all ratepayers, including minimizing cost shifts to non-participant customers (i.e., customers who cannot or do not utilize distributed energy resources or other energy technologies). Accordingly, the state should take this opportunity to carefully re-examine historic rate design principles through the lens of California's future goals and consider which rate design principles may need updating to reach our targeted levels of GHG abatement.

B. Overall Rate Policy

California's electric utilities play an important role in reducing GHG emissions through increased procurement of renewables and energy rates that incentivize electric use during times of increased renewable production and lower grid strain. As we evolve from a world where all customers receive "full service" from the utility, to one where there is an abundance of customer choices, including self-generation and commodity services from Community Choice Aggregators (CCA), the need for accurate price signals that truly reflect the cost of services provided is critical.

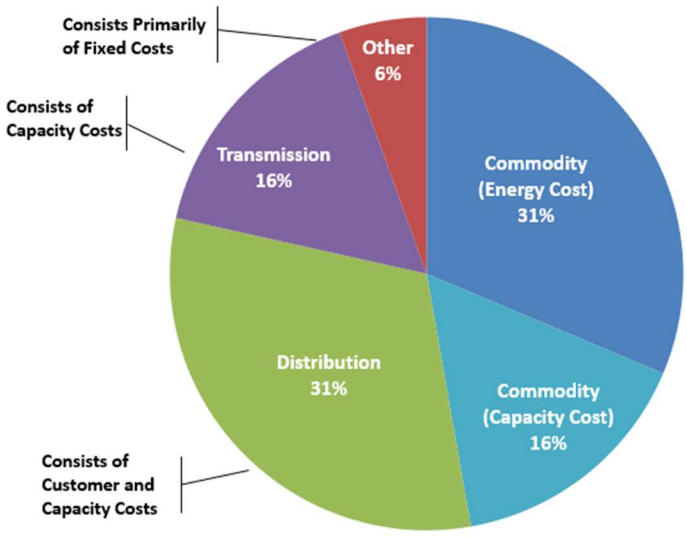
Additionally, as more and more self-generating customers move towards net zero energy on an annual basis, the Commission will need to consider what cost recovery mechanisms are appropriate. As discussed above, a fully volumetric rate will allow for maximum bypass of fixed costs, which are then shifted to other customers. Volumetric rates

[2] California Air Resources Board 2019 GHG Emissions by Main Economic Segment, available at https://ww2.arb.ca.gov/ghg-inventory-data.

also create a barrier to beneficial electrification which is less affordable when fixed costs are recovered volumetrically.

Utility electric rates recover the costs of services related to distribution resources, transmission resources, the costs of public policy programs and mandates, and for bundled customers, the costs of commodity resources. On average, under SDG&E's current effective electric rates, commodity services represent approximately 47% of total costs recovered, distribution represents 31%, transmission covers 16%, and the remaining 6% represents the costs of State and Commission mandated programs. As shown in Chart 1, most of SDG&E's costs are fixed. Only commodity (energy cost), which represent a fraction (less than one-third) of the services recovered in electric utility rates, is driven by the kilowatt-hour (kWh) energy usage of customers.

Chart 1: Breakout of System Average Rate*



**Based on rates effective January 1, 2022.*

Fixed costs are incurred independent of customer usage (kWh) and are driven either by (1) the number of customers, or (2) the capacity needs of customers, on both the system and individual circuits, which result from the maximum load or demand of the customers. SDG&E must incur these transmission and distribution costs on a scale that supports at least the minimum needs of its entire customer base, regardless of a customer's energy consumption. Unfortunately, electric rate cost recovery does not match this reality of cost causation and, as a result, is producing major distortions and inequities in rates.

For SDG&E, the biggest distortion created by its usage-based rate structure is the Net Energy Metering (NEM) cost shift, currently calculated to be $843 million and growing rapidly. NEM customers currently bypass a significant share of fixed costs. However, standalone solar, which represent the majority of NEM customers, is still, if not more reliant on the electricity grid. NEM customers use the utility as infrastructure both to export their excess production during the day and pull energy from the grid at night when the sun is not shining. Because NEM policy allows for netting of nearly all volumetric rate components, adopters can reduce their bills to nearly nothing and essentially use the grid as

a free storage resource.[3] Additionally, these customers avoid paying for state policy mandates and programs that other nonadopting customers end up footing as part of their (now higher) volumetric rates. With growth in technologies and customer choice, similar inequities will likely emerge if energy rates are not restructured to reflect the fixed nature of utility costs.

Rethinking Rate Design Principles to Facilitate California's Future Energy Landscape

In October 2013, Assembly Bill (AB) 327 was signed into law. AB 327 provided, among other things, (1) removal of constraints to rate design previously legislated by AB 1X and SB 695 to allow changes to residential rate structures, and (2) legislative requirements for the NEM successor tariff. In the Residential Rates Order Instituting Rulemaking (RROIR), R.12-06-013, the Commission adopted the following ten Rate Design Principles (RDP). While the RROIR was limited to residential rate design, SDG&E believes these principles should guide the rate design for all customer classes. Table 1 below presents the RDPs in the four categories consistent with D.15-07-001: cost of service, affordable electricity, conservation, and customer acceptance.

Table 1: Rate Design Principles

Cost of Service RDP	Affordable Electricity RDP	Conservation RDP	Customer Acceptance RDP
(2) Rates should be based on marginal cost; (3) Rates should be based on cost-causation principles; (7) Rates should generally avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals; (8) Incentives should be explicit and transparent; (9) Rates should encourage economically efficient decision-making.	(1) Low-income and medical baseline customers should have access to enough electricity to ensure basic needs (such as health and comfort) are met at an affordable cost.	(4) Rates should encourage conservation and energy efficiency; (5) Rates should encourage reduction of both coincident and non-coincident peak demand.	(6) Rates should be stable and understandable and provide customer choice; (10) Transitions to new rate structures should emphasize customer education and outreach that enhances customer understanding and acceptance of new rates, and minimizes and appropriately considers the bill impacts associated with such transitions.

Given today's energy landscape and increased competition for limited economic resources, it is time to reassess the value of each rate design principle individually and collectively and ask what else is needed to ensure California realizes its climate goals. Rates should continue to be based on cost-causation principles and encourage economically efficient decision-making, be affordable for *all* customers, emphasize customer understanding and stability, and incentives should be explicit and transparent. Rates should

[3] The original NEM tariff allows for netting of all rate components. The NEM Successor Tariff (NEM 2.0) requires customers to pay nonbypassable charges on all delivered energy. Nonbypassable charges make up approximately $0.0323/kWh of the average residential rate, which is $0.345/kWh as of January 1, 2022.

also continue to encourage energy efficiency, conservation, and reduction of peak demands during the critical times of the day through time of use (TOU) pricing structures.

For customers to electrify their homes and businesses, they must see a value proposition for conversion. Electrification requires customers to significantly increase their electricity consumption from current levels. Unfortunately, the current rate structure gives significant weight to Conservation RDP #4 which is punitive for customers with higher usage regardless of whether that usage is displacing fossil fuel consumption.

SDG&E submits that conservation and energy efficiency are still important during critical times of the day. However, in transitioning to the new clean electricity future, they should not be prioritized over other principles. At the very least, RDPs should not discourage increased usage where switching to electric would be zero-emission or carbon neutral.

Collecting more fixed costs through a fixed charge will help reduce volumetric rates closer to their marginal cost, better reflect the actual cost to serve customers, and help encourage electrification. Adjusting the RDP priorities to recover more fixed costs in fixed charges would also ensure that customers who choose to adopt technology continue to pay for safety and reliability enhancements, grid investments required to accommodate advanced technology adoption, and state policy mandates without passing those costs on to nonadopters.

Limitations on Residential Default Fixed Charges

The investor-owned utilities (IOUs) are currently limited in the absolute amount of fixed costs they can potentially recover from residential customers through a monthly customer charge. AB 327 limits the maximum monthly fixed charge for residential customers to $10 per month, plus annual percentage adjustments based on the Consumer Price Index (CPI).[4] However, a $10 per month charge will not go far enough to lower SDG&E's volumetric rates to a level that will incentivize building electrification and adoption of EVs. When compared to the current effective average residential rate, a $10 fixed charge will lead to a 3.3 cents/kWh reduction in residential Tier 1 volumetric rates, and virtually no change to Tier 2 rates. A reduction of this level is unlikely to lead to behavior changes aligned with what would be needed for electrification, which can increase household electricity consumption by 150-400 kWh/month.[5]

For SDG&E to be able to offer lower volumetric rates, the state must remove the $10 residential fixed charge cap and annual CPI increase cap and allow for collection of more costs through residential fixed charges. Fixed charges create some equity concerns, as they impact low-income customers more than non-low-income customers; however, there are potential solutions, including discounted or income-based fixed charges for customers who participate in income-assistance programs, similar to the current rate structure for this subset of customers.

[4] *See* Public Utilities Code Section 739.9 (note that California Alternate Rates for Energy (CARE) customers and Medical Baseline customers are limited to $5 per month, plus CPI).

CCAs Will Drive Time-of-Use Periods in the Future

When properly defined, TOU rate structures deliver accurate price signals for the commodity component of electric rates. However, as an increasing number of bundled customers are expected to receive their commodity service from CCAs and no longer receive commodity service from SDG&E, the opportunity for SDG&E to incentivize load shifting through commodity price signals will decrease significantly. Over the next few years, SDG&E is currently estimating significant load departure, and therefore, SDG&E will be sending commodity price signals to a small subset of its customers. Thus, the state should begin to consider what price signals are appropriate in this scenario where SDG&E is no longer providing commodity service to the vast majority of its customers and therefore there are very little, or no emissions savings gained through load shifting.

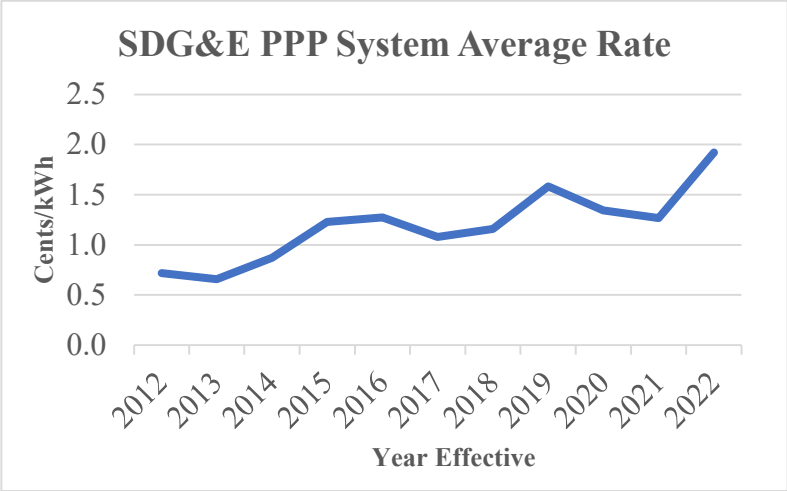
Additionally, unlike the California IOUs, there appears to be no established regulatory process to define TOU periods for CCAs.[6] While the CCAs in SDG&E's service territory currently offer commodity rates that mirror the standard SDG&E TOU periods, they are not required to offer these rates and can define different TOU periods without going through the regulatory process. If CCAs are able to operate independently of the CPUC regulatory process, the state must consider how consistency can be achieved between CCA TOU periods and state goals. If CCAs offer TOU periods that do not coincide with the highest cost and most GHG intensive hours, customers may not be incentivized to shift their consumption to lower-cost and cleaner hours.

Funding Public Purpose Programs through Electric Rates is Regressive

Lastly, legislatively mandated Public Purpose Programs (PPP) are contributing to the upward pressure on electric rates. This rate component helps fund low-income programs such as California Alternate Rates for Energy (CARE), Family Electric Rate Assistance (FERA), Energy Efficiency programs, and several other mandated programs designed to create public benefits. The current electric PPP revenue requirement funds 17 different programs and adds up to a total of $353 million.[7] Over the last 10 years, the PPP rate component has increased 163% for residential customers and 168% system wide. In the past year alone, the residential PPP rate has increased by 94% and the system average PPP rate increased by 77%.[8] Further, four new programs are required to be included in PPP in 2022, contributing to the rate increase.[9]

[6] SDG&E is required to evaluate Base TOU periods in every GRC Phase 2.
[7] Increase from January 1, 2012 to January 1, 2022.
[8] Increase from February 1, 2021 to January 1, 2022. SDG&E implemented its 2021 annual consolidated rate change on February 1, 2021 per Advice Letter 3669-E 3669-E-A, approved and effective February 1, 2021
[9] Programs that have been added to the PPP funding in the past year are the Residential Uncollectible Balancing Account – Arrearage Management Payment subaccount, the Flex Alert Balancing Account, the Economic Development Rate Balancing Account, and the Wildfire and Natural Disaster Resiliency Rebuild Program. The current revenue requirements for these programs were adopted per SDG&E AL 3849-E, effective January 1, 2022.

Chart 2: Public Goods Average Rate Over 10 Years



With inflation continuing to rise, it is becoming more challenging for customers to absorb rising costs embedded in rates. Because PPP costs are collected from customers through volumetric rates, it penalizes customers that have higher usage for whatever reason, including bigger households, households in less-moderate climate zones, households without solar or other distributed energy technology, and households that are increasing their usage as a result of adopting electrification technology. For these reasons, SDG&E recommends the funding for public goods programs be removed from electric rates and instead be funded through California's General Fund. SDG&E proposes to continue to administer the programs to ensure that there is continuity for customers, but if the total PPP revenue requirement was no longer collected through electric rates, SDG&E's average residential rate would decrease by 5% and system average rate would decrease by 6%. SDG&E currently estimates that this rate decrease would reduce the average residential bill by approximately $90 annually.[10] Funding PPP through the State's General Fund is a concrete step California can take that would guarantee a decrease in volumetric energy rates.

Table 2: SDG&E's Illustrative Class Average Rates

SDG&E's Illustrative Class Average Rates				
Customer Class	Rates (¢/kWh) Effective 1/1/22	Rates (¢/kWh) All PPP Removed	Rate Reduction (¢/kWh)	Rate Reduction %
Residential	34.5	32.7	-1.8	-5%
Small Comm.	32.2	30.2	-2.0	-6%
Med & Lg C&I	29.1	27.1	-2.0	-7%
Agriculture	23.2	21.2	-1.9	-8%
Lighting	29.0	28.9	-0.2	-1%
System Total	31.1	29.1	-1.9	-6%

[10] Average SDG&E residential customers pays ~$7.40/month in PPP charges. Assumes the average SDG&E residential customer usage of 400 kWh per month.

C. SDG&E's Policy to Limit Costs and Control Rate Increases for Customers

SDG&E continues to believe that a fair and equitable rate design will ensure that all customers pay a reasonable share of the utility infrastructure costs needed to serve them, and that a shrinking pool of customers are not left responsible for grid costs that benefit all customers.

Within California, NEM policy has been wildly successful in incentivizing customers to adopt distributed generation. While the program has been extremely successful at promoting the adoption of a once nascent technology, it has also not been materially updated since it was put in place in 1995. The NEM 2.0 Decision led to minimal change in the way rooftop solar customers are compensated and as a result, SDG&E has continued to see the cost shift created by this program grow exponentially. During 2021, the estimated annual cost shift increased $99 million to approximately $709 million.[11] Since the end of 2021, the annual NEM cost shift has continued to increase and is currently $843 million in SDG&E's service territory alone. This cost shift is anticipated to increase over time even with significant revisions for new customers, due to the 20-year legacy treatment for NEM 1.0 and 2.0 customers.

In August 2020, the Commission opened R.20-08-020 to revisit the NEM tariffs identified in D.16-01-044. As part of the proceeding, the CPUC commissioned a NEM 2.0 lookback study that highlighted the current NEM tariff is not cost effective, increases the bills of non-participants and that the costs of NEM are disproportionately paid by younger, less wealthy, and more disadvantaged ratepayers.[12] In addition, there is support in the record for significant NEM reform from a range of intervening parties, including environmental and consumer advocate groups, who all recognize the upward rate pressure and equity disparity caused by the current program. The cost shift associated with the adoption of self-generation technologies in SDG&E's territory is acutely felt by all non-adopters as the utility cost of service for adopters is disproportionately transferred to non-adopters. Over 18% of SDG&E's residential customers have adopted rooftop solar. SDG&E estimates that the average non-CARE customer pays $272 more per year as a result of NEM, and the average CARE customer pays $180 more annually. This equates to approximately a 19% increase in the average customer's bill.

The Proposed Decision issued in R.20-08-020 recognizes the impacts of the current program, stating that "Without changes to the current tariff structure, the financial burden on the shrinking pool of nonparticipants is unsustainable and could fall disproportionately on lower-income customers."[13] The Proposed Decision outlines a net billing structure for future customers, as well as adopts a Grid Participation Charge based on the installed capacity of the distributed generation system. The Commission's evaluation of the NEM 2.0 tariff highlighted its incompatibility with affordable electrification, as it contributes to rate and bill increase for non-participating customers. A final decision that implements an equitable successor tariff is a crucial and logical next step in limiting future rate increases.

[11] Cost shift estimates based on 11/1/2021 effective rates and the NEM MW installed in each respective year.
[12] CPUC, *Utility Costs and Affordability of the Grid of the Future: An Evaluation of Electric Costs, Rates, and Equity Issues Pursuant to P.U. Code Section 913.1* (May 2021) at 30, available at https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2021/senate-bill-695-report-2021-and-en-banc-whitepaper_final_04302021.pdf.
[13] R.20-08-020, Proposed Decision Revising Net Energy Metering Tariff and Subtariffs (December 13, 2021), Finding of Fact 13 at 156.

1. List the Policies the Utility is Advocating

SDG&E continues to recommend the following policies for limiting costs and rate increases while meeting the State's energy and environment goals for reducing GHG:

1. **Accurate price signals**: Providing customers with accurate price signals means that utilities charge for the services they provide and rates are designed to recover costs on the same basis by which they are incurred. This includes charging a more accurate $/kWh price for volumetric consumption that will allow for electrification and conversion from traditional more carbon-intensive fuels to low-carbon electric alternatives.
2. **Transparent incentives**: Incentives or subsidies that have been deemed necessary to further public policy objectives are separately and transparently identified and funded outside of electric rates. Cost-shifting is exacerbated with incentives that are embedded in rates and not transparently identified. Building upon the foundation of accurate price signals, subsidies that advance state policy goals should be transparently identified in utility bills, separate from the charges for services provided to or from the customer. SDG&E believes that legislatively mandated Public Purpose Programs should be funded through California's General Fund going forward. This would lead to more affordable electric rates for all customers, as previously discussed in Section B.
3. **Customer options**: SDG&E believes that a critical aspect of SDG&E's policy framework is to balance the needs of customers while still providing a cost-based rate structure. SDG&E recognizes the importance of continuing to offer customers new cost-based rate options that best meet their needs, and that providing the opportunity for customers to adopt rates that allow more customer choice and control should be balanced with complexity of rates.
4. **Transition paths to minimize impacts and inform customers**: SDG&E is committed to proactively providing customers with clear and timely information to help customers prepare for any rate change. SDG&E believes that implementing rate design changes in transitional phases: (i) helps to minimize customer impacts and (ii) provides the best opportunity for customers to progressively gain more control and become more engaged and informed about the choices that are available to them.

2. Recommendations for the CPUC and Legislature to help minimize rate increases in the future

In 2022, SDG&E makes the following recommendations for minimizing rate increases into the future:

- Transition Public Purpose Program Funding from Electric Rates to California's General Fund
- Adopt a Successor Tariff to NEM that Reduces the Cost Shift Burden to Nonparticipating Customers
- Reconsideration of Rate Design Principles that Penalize Increased Consumption Resulting from Electrification and Decarbonization

- Reconsideration of the AB 327 Cap on Residential Fixed Charges and Composite Tier Methodology[14]
- Implementation of a Residential Fixed Charge as Soon as Practicable
- Cost-Based Rates to Reduce Cross Subsidies
- Increase Transparency of Subsidies

SDG&E recommends that the Commission take this opportunity to continue to move forward with a cost-based rate structure and transparent incentives that allows for customers to accurately assess alternative energy services on a competitive basis. In addition, only with cost-based rate structure and transparent incentives can a clean energy future be supported without artificially inflating customer rates resulting from subsidies buried in rate design. SDG&E also recommends the Legislature transition the funding for Public Purpose Programs from electric rates to the State's General Fund in order to immediately help mitigate the upward pressure on rates. This change would guarantee a reduction in electric rates, leading to more affordable energy for all and enabling customers that adopt electrification technology to see smaller bill increases.

And although AB 327 permitted the reform of residential rate structures to reduce tier differentials and allow for the consideration of residential fixed charges, SDG&E continues to have concerns about future upward volumetric rate pressures. SDG&E recommends that the Commission allow for the implementation of a residential fixed charge as soon as reasonably practicable, given that most of SDG&E's costs to provide service are fixed.

Adopting a residential fixed charge is an important first step, but more change is needed to provide customers with high volumetric rate relief. SDG&E fully supports the State's pursuit for a clean energy future but cautions the Legislature and the Commission to ensure that the pursuit of this clean energy future is achieved through least-cost measures. Accordingly, before any new clean energy proposals are adopted, they must be weighed against competing solutions in a thoughtful manner that considers the rate and bill implications to utility customers. SDG&E recommends that the Legislature and the Commission ensure that the costs of programs and technologies that help achieve its clean energy goals are paid for equitably by all customers and limit the ability for customers to bypass paying for their fair share of these programs.

Additionally, SDG&E recommends that the Commission use lessons learned from certain programs, including NEM, that include non-transparent rate subsidies and require the adopting customer to be compensated at the retail rate, when the same clean energy could be procured for significantly less. Looking to future affordability of electricity, the Commission and state have a responsibility to choose policies that are more cost-effective among those available to meet GHG targets. SDG&E will be required to continue to invest in infrastructure to provide clean, safe, and reliable service to all its customers. Additionally, further grid investment and upgrades will be needed to accommodate technology advances and adoption. SDG&E has a key role to play in the state's clean energy future and ensuring the right rate principles are in place to allow California to reach its future climate goals.

[14] *See also* Public Utilities Code Section 739.9.

II. Assessment of Affordability Rulemaking Phase 3 En Banc Topics

It is unlikely that there is one single solution to the affordability issues that customers, the Commission, and the IOUs are facing today. However, there are some initial measures that the Commission and State should take that can help support affordability and rate design changes necessary to help facilitate the state's energy transition. First, SDG&E is recommending the removal of the PPP revenue requirement from rates. These Public Purpose Programs benefit society and should be paid for in a less regressive way, through the state's General Fund. Second, SDG&E recommends reconsideration of the AB 327 cap on residential fixed charge levels and elimination of the composite tier methodology. Such changes are imperative to allowing for residential rate structures that help lower volumetric kWh rates closer to marginal costs, better reflect cost-causation principles, and help encourage beneficial electrification. SDG&E's response to these and other issues drawn by the Commission's Energy Division from the Affordability En Banc are addressed below.

En Banc Topic: *Implement an income-based fixed charge with the amount charged progressively increasing for higher income households*

SDG&E believes there is significant merit in a rate design that recovers fixed costs in a fixed charge. Higher fixed charges would lower the volumetric kWh rates closer to marginal costs, which would make electrification of transportation and buildings more attractive. Further, a fixed charge that considers customers' income levels could help ensure that customers who are not able or less able to pay will not be disproportionately burdened.

It's also important to highlight that a fixed charge rate design should not consider net electricity usage alone. Increasingly, low usage does not equate low income. Most of the very low usage customers are also NEM customers, meaning they are now shifting costs to non-participating customers, raising electricity bills for those who can least afford it.

SDG&E recommends the Commission consider the following factors:

- The statutory maximum for a default residential fixed charge;
- The composite tier methodology that requires any revenues collected through a fixed charge to be put toward lowering the Tier 1 rate. Therefore, implementing any level of fixed charge with the required composite tier will only provide rate relief to Tier 1 rates and will undo the Residential Rate Reform Rulemaking's glidepath to narrow the tier differentials;
- Income-based fixed charges are not necessarily cost based and can stray from cost-causation principles;
- Customer privacy, implementation, and operational difficulties associated with the utility maintaining and verifying customer income data; and
- Income does not always equate to ability to pay.

As discussed previously, there are statutory limitations for default residential fixed charges. AB 327 capped the maximum amount of default residential fixed charges for CARE and non-CARE customers. Additionally, SDG&E is constrained by the level of rate relief it could provide to customers because of the composite tier, which requires that any revenues collected through a fixed charge must contribute toward lowering the Tier 1 rate

only. Adding a fixed charge with the required composite tier methodology will lower the Tier 1 rate but leave the Tier 2 rate at its current level, instead of lowering both Tiers equally. While a $10 fixed charge would help to lower SDG&E's Tier 1 volumetric rates by approximately 3.3 cents/kWh, SDG&E's current residential average rate is 34.5 cents/kWh.[15] This result is inequitable for the same reasons volumetric rates generally are inequitable.

Prior to implementing any level of fixed charges exceeding the legislative cap, the legislature would have to adopt language into the Public Utilities Code that allows for higher default fixed charges. As a potential first step, the Commission could adopt the maximum fixed charge pursuant to the AB 327 cap for all residential customers that does not include the composite tier differential, while the state works towards changing the Public Utilities Code to allow for higher levels of fixed charges.

Further, adopting income-based fixed charges would require the Commission to stray from its adopted rate design principles. As stated earlier, SDG&E continues to recommend the Commission holistically re-examine its RDPs in the context of achieving electrification and the state's climate goals. Retaining cost-basis and cost-causation principles is essential in moving to any novel rate structure. SDG&E recommends that the Commission approach any new rate structure by anchoring it in cost-causation principles and cost basis. Only after establishing a clear, cost-based structure, should transparent adjustments be made for policy reasons, such as income-based discounts.

A fixed charge that varies by individual income would likely be complicated to administer. In order for an income-based discount to function as desired, it would have to be applied to each month's bill and not provided as a tax refund. Therefore, the Commission should consider how income levels could be simplified to increase ease of administration and minimize implementation costs. Building off the current self-certification CARE/FERA discount structure, and adding additional stratification for middle-income customers, could be easier to administer and may be easier for customers to understand than implementing a new measure of income, such as percent of Advanced Metering Infrastructure (AMI).

Likely complications to an income-based fixed charge are customer privacy, such as California Consumer Privacy Act (CCPA), concerns, as well as data collection and maintenance issues, and income verification issues. For instance, use of tax data to verify incomes has all of those issues, but also raises the issue of how to verify individuals that do not file tax returns for valid (i.e., low income) or invalid reasons.[16] Alternatively, the self-certification approach would have its own concerns, such as improper self-certification to receive a larger discount, shifting costs to other customers. Finally, income is not always indicative of wealth and ability to pay. There are cases in which wealthier households have relatively low incomes, in which case they would qualify for a larger discount than is desirable from an equity perspective.

[15] Effective as of January 1, 2022 per Advice Letter 3928-E.
[16] *See, e.g.,* CA.gov, State of California Franchise Tax Board, *Do you need to file?*, available at https://www.ftb.ca.gov/file/personal/do-you-need-to-file.html.

En Banc Topic: ***Implement a percent of income payment plan program at scale, specifically commenting on potential sources of non-ratepayer funds to fund a full-scale program***

SDG&E is currently in the process of implementing a Percentage of Income Payment Plan (PIPP) program pilot that will run for 48 months.[17] This pilot has an enrollment limit of 1,000 participants, and provides a cap on participating customer's bills, regardless of usage. Participating customer bills will be capped at 4% of household income for both electricity and gas according to certain standard assumptions.[18] For customers to be eligible for the pilot, they must already be enrolled in the CARE program. SDG&E's primary concerns around implementing a PIPP program at scale are: lack of price signals, program funding, and cross-subsidization.

The PIPP program, as currently designed, abandons foundational rate design principles of cost basis, cost-causation, economically efficient decision making, and conservation, because it removes nearly all price signals by placing a cap on a customer's bill, regardless of usage.[19] The current PIPP program structure lacks even general conservation price signals. It would encourage customers to use as much energy as desired regardless of whether it was essential or could be shifted to other, more cost-effective times. This is especially problematic for customers who adopt technologies that place additional demand on the grid, like EVs. A customer with an EV could charge their vehicle at times of peak grid stress without consequence or care. At scale, this could be disastrous and result in significant upgrades that might have otherwise been avoided with proper price signals.

SDG&E is also concerned with PIPP program funding sources. The pilot program is limited to 1,000 customers, but even at this level, SDG&E estimates a wide range of subsidy for participant customers. This subsidy will ultimately be shouldered by other ratepayers. For the pilot's 48-month duration, SDG&E has estimated an electric subsidy of $650,000-8,300,000, which equates to a subsidy of approximately $162,500-2,075,000 per year. SDG&E urges caution in implementing a PIPP program at a larger scale when the resulting cost shifts of the pilot are still unknown. It would be more prudent for the Commission to conduct an evaluation of the current pilot and then decide about moving forward with a PIPP program.

SDG&E believes that a fixed charge approach that considers equity among customers as well as grounded by cost causation principles and cost basis is a superior option to a percent of income payment plan program for all customers. With a fixed charge, the rate structure would also still include commodity prices, sending price signals to customers about when they should use energy. Increased usage will increase a customer's bill with a fixed charge approach because that customer will still pay a $/kWh rate for each incremental kWh it purchases from their commodity provider, meaning a rate design that includes fixed charges should maintain the incentive to reduce overall use and shift usage to lower cost hours. Grounding a fixed charge rate design in cost-causation principles also ensures that any subsidies provided are transparent and can be explicitly displayed to customers.

[17] *See* D.21-10-012; Joint Advice Letter 3941-E/3058-G.
[18] Bill caps are based on Federal Poverty Guidelines. *See* D.21-10-012, Conclusion of Law 14 at 84.
[19] Note, however, that customers over a certain usage threshold have additional verification requirements. *See* D.21-10-012 at 52 ("Further, PIPP participants will be subject to the CARE program's high usage post-enrollment verification provisions.").

En Banc Topic: ***Move wildfire mitigation costs to the General Fund***

SDG&E has established itself as an industry leader in safety and reliability, focusing on wildfire prevention and mitigation activities for more than a decade. A balanced approach to investment in (and cost recovery of) wildfire mitigation is necessary as we move forward. SDG&E is still considering whether certain wildfire mitigation costs currently collected through rates could (or should) potentially be funded from outside sources.

En Banc Topic: ***Reduce IOUs' authorized Return on Equity***

The cost of equity is a "true cost" in the capital market. Setting a Return on Equity (ROE) that fairly represents the cost of equity balances the interest of both ratepayers as well as shareholders. If ROE is set too low it harms both groups, as it impairs the financial health and integrity of the utility such that they are unable to fund the investments they need to maintain the safety and integrity of the system in addition to meeting important public policy goals. SDG&E submits that arbitrarily lowering its authorized ROE is not a necessary or prudent means to increase the affordability of electric rates. In fact, lowering SDG&E's ROE for reasons outside the well-established constitutional standards for determining a reasonable rate of return would have a detrimental impact on the Company's credit rating and ability to raise capital at a time when significant private investment is needed to facilitate a clean and reliable transition to the decarbonized electric grid envisioned by the State.

Credit rating agencies have likewise repeatedly identified the Utilities' current ROEs as credit supportive and a counterbalance to the Utilities' increased wildfire risks. The Commission has repeatedly recognized that strong, investment grade credit ratings for the Utilities benefit customers. The Commission has recognized that reduced credit ratings, by contrast, harm ratepayers through increased costs for borrowing and by the fact that lower credit ratings increase financial risks, requiring higher ROEs. If SDG&E does not have the same access to low-cost debt and equity that it has long had, ratepayers will feel the impact for years from higher borrowing costs and less ability to invest in public capital projects. Utilities play a key role in helping the State meet its ambitious climate change and other environmental goals, while providing safe, reliable, and affordable service to customers. California's ability to meet targets in areas like renewable energy and electric transportation are likely either diminished or out of reach without its public utilities being financially healthy to attract the private capital necessary to invest in needed public infrastructure.

En Banc Topic: ***Reduce GRC phase I anchor bias through evaluation of required alternative scenario(s).***

The Commission should not require utilities to include alternative scenarios, such as the CPI-constrained proposal suggested by The Utility Reform Network (TURN), in their GRC Phase 1 Applications. The Commission sets just and reasonable rates based on the well-established principle that a utility is entitled to all of its reasonable costs and expenses, as well as an opportunity to earn a rate of return on the utilities' rate base. An alternative scenario constrained by CPI is counter to this principle, and SDG&E is unaware of any

legal authority that would require just, reasonable, and necessary utility expenditures to be capped at a CPI-based rate of increase.

At a minimum, any revenue requests in GRCs should be reviewed using an index that accurately reflects utility costs. Utilities already incorporate current and forecasted economic conditions (e.g., inflation and escalation) specifically for utility costs (up or down) in their GRC proposals. Further, the Commission has recently and routinely rejected the use of CPI escalators in GRC ratemaking mechanisms as it is a broad wholesale pricing index that does not reflect how utilities incur costs. This is the same as a general inflation-constrained approach.

Lastly, a presentation of an inflation-constrained scenario in a utility GRC filing is procedurally improper. The utility, as the party with the burden of proof, has the discretion to present evidence supporting its own requests. A required inflation-constrained proposal would require the utility to provide information essentially on behalf of the intervenors.

En Banc Topic: ***Implement rate or infrastructure planning mechanisms to avoid excessive gas infrastructure costs falling disproportionately on residential customers who cannot electrify***

System planning that considers a longer-term view with a target for GHG emission reduction can help inform where least regret clean fuel investments on the gas grid can be prioritized and strategic electrification and decommissioning is optimal. Considering customer evolution, decarbonization needs, and existing infrastructure characteristics, system planning will be necessary to optimize energy system costs, overall economic impacts, and financial, energy, and environmental equity and sustainability for the state. The gas system of the future should be optimized to ensure reliability and resiliency, while delivering the deepest GHG emission reductions at the least cost.

It is important to note that the large majority of gas system investment today is directed towards safety and reliability. As greater parts of the economy electrify, there is an increased need for the gas system to provide reliability to the electric grid via just in time dispatchable fuel to accommodate renewable volatility (both the steep ramp up and ramp down) and long duration storage. The importance and value of this service, which is enjoyed by all energy system users (including electric-only customers), is forecasted to grow, despite overall annual throughput decline in natural gas being used for electric generation.

This evolving utilization of the gas system will necessitate an update to gas cost allocation and rate design practices. Additional work is needed to ensure natural gas rates for electric generators are reflective of the value the gas system provides, and that electric generators remain solvent as their capacity factors may decline while their intermittent value may increase. Moreover, residential rate design changes will need to be considered to help ensure customers who cannot switch and must retain standard gas appliances do not pay for a disproportionate amount of gas system costs compared to customers who partially electrify. This can have significant equity consequences if not addressed ahead of policies that will actively accelerate the transition. Also, to better understand the impact of declining gas demand on affordability, more sophisticated scenario analysis around customer evolution is needed to inform cost causation and value-based principles– key underpinnings to efficient and equitable cost allocation and rate making.

III. Conclusion

SDG&E appreciates the opportunity to provide these Comments and respectfully requests that the Commission and legislature take immediate steps to reform residential electric rates, particularly with regards to volumetric pricing and fixed cost recovery. Doing so would improve equity and affordability while enabling widespread electrification and customer choice.